

Message Text

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ACTION SS-30

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 691

INFO AMEMBASSY JAKARTA

S E C R E T TOKYO 3638

EXDIS

EO 11652: GDS

TAGS: ENRG JA ID

SUBJ: ENERGY: INDONESIAN LNG

SUMMARY: MORGAN STANLEY REP BRIEFED TOKYO GAS LAST WEEK ON PACIFIC LIGHTING PRICING PROBLEM ON INDONESIAN LNG. TOKYO GAS ADVISED MORGAN REP THAT PRICE ROLLBACK NOT BEING CONSIDERED IN JAPAN AND THAT CHANGE IN JAPANESE PRICE COULD BE BROUGHT ABOUT ONLY BY QTE DRASTIC ACTION UNQTE, E.G. MORGAN STANLEY THREAT TO BREAK ITS TIES WITH JAPANESE BANKS. WHILE IT SEEMS UNLIKELY MORGAN STANLEY WOULD BE WILLING TAKE ANY SUCH ACTION, TOKYO GAS COMMENTS REINFORCE VIEW THAT POSSIBILITY OF UNILATERAL JAPANESE ACTION TO ROLL BACK PRICE IS REMOTE. END SUMMARY.

1. DURING DISCUSSION LAST WEEK ON OTHER SUBJECTS WITH EMBOFF, EXECUTIVE VICE PRESIDENT OF TOKYO GAS, TAKEO MURAKAMI, NOTED THAT HE HAD BEEN APPROACHED BY LOCAL REPRESENTATIVE OF MORGAN STANLEY, WHICH ACTS AS REPRESENTATIVE FOR PACIFIC LIGHTING (PL) IN JAPAN.

MURAKAMI SAID MORGAN REP HAD EXPLAINED PL'S CONTRACT SITUATION WITH PERTAMINA AND HAD ASSERTED THAT PL NEGOTIATIONS MUCH MORE LIKELY TO BE SUCCESSFUL IF JAPANESE WOULD ALSO REQUEST PERTAMINA TO REDUCE PREVIOUSLY NEGOTIATED PRICE. MORGAN REP NOTED THAT HIS FIRM HAD TO CONSIDER WHAT PRICE FPC WOULD APPROVE AND ADDED THAT PL NEAR FINAL COMMITMENT ON VERY LARGE EXPENDITURE FOR EQUIPMENT NECESSARY

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FOR PROJECT.

2. MURAKAMI SAID HE HAD TOLD MORGAN REP THAT NO CONSIDERATION WAS BEING GIVEN TO POSSIBLE LNG PRICE ROLLBACK IN JAPAN AT PRESENT TIME, BECAUSE NUMBER OF HIGH LEVEL JAPANESE POLITICAL FIGURES HAD PROFITTED FROM DEAL. HE SAID QTE
DRASTIC ACTION UNQTE WOULD BE REQUIRED TO CHANGE JAPANESE PRICE. HE ADDED THAT HIS SUGGESTION HAD BEEN THAT MORGAN STANLEY PUT ITS ENTIRE WEIGHT BEHIND PL CASE, INCLUDING THREAT TO BREAK ITS TIES WITH JAPANESE BANKS IF THEY INSISTED ON STANDING BEHIND SUCH AN QTE UNSAVORY

INDONESIAN LNG PRICE AGREEMENT. THIS THREAT MIGHT SUCCEED, MURAKAMI SAID, SINCE MORGAN HAD BANKING TIES WITH INDUSTRIAL BANK OF JAPAN, WHOSE COUNCILLOR, SOHEI NAKAYAMA, PLAYED KEY ROLE IN NEGOTIATIONS ON LNG PRICE.

3. MURAKAMI SAID MORGAN STANLEY REP SEEMED RECEPTIVE TO IDEA AND SAID HE PLANNED TO DISCUSS IT WITH PL NEGOTIATOR WHO WAS PASSING THROUGH TOKYO ON WAY TO JAKARTA ON MARCH 16 AND 17.

4. COMMENT: PACIFIC LIGHTING APPARENTLY SOUGHT MURAKAMI'S ADVICE BECAUSE OF FRIENDLY CONTACTS FIRM HAS HAD WITH TOKYO GAS IN PAST. MURAKAMI HAS NEVER BEEN WELL DISPOSED TOWARD THE JAPANESE-INDONESIAN LNG DEAL. TOKYO GAS IS NOT DIRECTLY INVOLVED IN THE DEAL AND THUS DOES NOT STAND TO GAIN ANY BENEFITS. ON THE CONTRARY, HIGH PRICE AGREED TO BY JAPANESE IN INDONESIA IS NOW PUTTING PRESSURE ON SOME OF TOKYO GAS' LNG CONTRACTS IN OTHER AREAS.

5. EMBOFF MADE NO COMMENT ON MURAKAMI'S ACCOUNT OTHER THAN TO NOTE THAT IT SEEMED RATHER UNLIKELY THAT MORGAN STANLEY WOULD BE WILLING TO STAKE ITS BANKING FUTURE IN JAPAN ON THIS ONE CASE. MURAKAMI'S COMMENTS, HOWEVER, TEND TO CONFIRM OUR VIEW THAT JAPANESE PRICE ROLLBACK UNLIKELY WITHOUT OUTSIDE PRESSURE. WE HAVE NOT APPROACHED MORGAN STANLEY OR JAPANESE FIRMS

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INVOLVED, AND DO NOT PLAN TO DO SO UNLESS INSTRUCTED.
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